

L. R. B. & M. JOURNAL

VOLUME 34

NUMBER 5

SEPTEMBER 1953

Employee Profit-Sharing and Savings Plans

Coordination between
Independent Public Accountants and the
Internal Auditing Department

Published by
LYBRAND, ROSS BROS. & MONTGOMERY
Certified Public Accountants

Table of Contents

Employee Profit-Sharing and Savings Plans	1
---	---

BY PHILIP BARDES

Coordination between Independent Public Accountants and the Internal Auditing Department	10
--	----

BY DONALD M. RUSSELL

Editorials	20
----------------------	----

Birmingham Office

Pennies in the Accounts

The Lybrand Awards

Adam Averell Ross Prizes

The Montgomery Prize

Notes	23
-----------------	----

L. R. B. & M. JOURNAL

VOLUME 34

SEPTEMBER 1953

NUMBER 5

Employee Profit-Sharing and Savings Plans*

BY PHILIP BARDES

Profit-sharing plans, like other employee benefit programs, are playing an increasingly important role in our modern corporate economy. As of February 28 of this year the total number of rulings issued by the Treasury as to the qualification of all types of plans exceeded 20,000. Profit-sharing plans constitute about 30% of the number now in operation. Profit-sharing plans constitute an increasingly larger percentage of all plans being put into effect. This discussion will be largely devoted to exploring the reasons for this trend.

Definition of Profit-Sharing Plan

The regulations define a profit-sharing plan as "a plan established and maintained by an employer to provide for the participation in his profits, by his employees or their beneficiaries, based on a definite predetermined formula for determining the profits to be shared and a definite predetermined formula for distributing the funds accumulated under the plan after a fixed number of years, the attainment of a stated age, or upon the prior

occurrence of some event such as illness, disability, retirement, death, or severance of employment¹."

Applicability of General Rules

The same basic rules as to the qualification of plans, including the nondiscrimination features, are equally applicable to pension and profit-sharing plans. The beneficiaries of profit-sharing trusts are taxed in the same manner as the beneficiaries of pension trusts.

Incentive Features of Profit-Sharing

The incentive feature of profit-sharing plans is one of the principal inducements to their selection. Since the benefit which each employee derives under the plan is directly related to the profits earned by the company, the employee is encouraged to exert his best efforts to increase the earnings of the company through more efficient performance. Moreover, labor turnover may be reduced, and incentive heightened, especially on the part of lower-paid employees, by providing for distributions prior to retirement under the plan. For example, the employee may, subject to certain conditions, receive

*Paper presented at Saranac Conference of N. Y. State Society of CPA's, June 22, 1953.

¹ Reg. 111, Sec. 29.165-1.

benefits after the expiration of a fixed number of years (minimum two) or upon attaining a stated age, or the occurrence of illness, disability, death or severance of employment. In this respect the profit-sharing plan differs from the usual pension plan where the deferred wages currently paid by the employer, in the form of a contribution under the plan, ordinarily become available to the employee only if he lives and remains in the employ of the company until retirement.

Where a distribution is made to an employee prior to separation from employment, the amount distributed to him is taxable as ordinary income. The benefit of the capital gain treatment of a lump-sum distribution paid upon termination of employment is not available in this case. This factor will not usually be significant, however, in the case of lower-paid employees.

Avoidance of Fixed Dollar Commitment

In a case where the company's earnings are of an erratic nature so as to indicate the advisability of avoiding fixed annual financial commitments, the profit-sharing plan offers definite advantages. Since the employer's contribution is usually determined by a formula based upon profits rather than upon actuarial computations of the amount needed to provide the anticipated

benefits, there is no commitment to pay a certain annual amount which the company must meet even in a loss year.

Formula Requirements

Apart from the flexibility inherent in profit-sharing plans, the courts have exercised a further liberalizing influence on the question of how fixed the formula itself is required to be under such a plan. In a leading case involving a profit-sharing trust for the employees of the Lincoln Electric Company², the Court of Appeals for the Sixth Circuit held that a plan under which the employer made a single contribution of \$1,000,000, with no provision for subsequent payments, qualified under section 165. The Commissioner had contended that the contributions to the trust was not based upon a definite predetermined formula as required by the regulations³ and that the program was not a permanent one within the meaning of the regulations⁴ since there was no provision for recurring contributions by the employer. The court held that the contribution of \$1,000,000 was definite and predetermined in accordance with the regulations and that the permanency requirement did not necessarily require recurring contributions. The Treasury,

² *Lincoln Electric Co. Employees' Profit-Sharing Trust v. Com'r*, 190 F. (2d) 326.

³ Reg. 111, Sec. 29.165-1.

⁴ *Ibid*.

however, is not following the *Lincoln Electric Company* case.

On the basis of its reversal by the Sixth Circuit in *Lincoln Electric*, the Tax Court now holds that it is unnecessary to have a definite predetermined formula for contributions to a profit-sharing trust⁵. In the *Produce Reporter* case, the company's contributions to the fund were upheld as deductions where, under the terms of the plan, the company could contribute such amounts as it "may at any time see fit." The position of the Tax Court is that the purposes of section 165 may be effectively carried out in the absence of any specific formula requirement. The Treasury has refused to acquiesce in the *Produce Reporter* decision and the case is now on appeal.

The matter of definite formula requirements has not yet been settled despite the favorable trend of judicial opinion. It would therefore be inadvisable at this time to set up a profit-sharing plan without the inclusion of a definite formula. It would likewise be inadvisable to make a single contribution to a plan without provision for subsequent contributions. This is particularly true in view of the chances that approval may now be obtained allowing amendments to existing plans and to the percentage of profits required to be contributed under the plan.

In the *E. R. Wagner Manufac-*

turing Co. case⁶, the company's profit-sharing plan provided for annual contributions equal to 35% of its net profits, subject to the limitation of 15% of participating employees' compensation. Amounts based on this formula were paid into the trust during the World War II excess profits tax years. In 1946, the company sought to reduce the contribution formula from 35% to 10%. The Treasury refused to sanction the amendment on the ground that the plan would not then meet the permanency requirement of the regulations. The taxpayer nevertheless amended the plan in 1946 to reduce the formula to 10%, and its contributions thereafter were based on that figure. The Tax Court acknowledged that the termination of the excess profits tax may have prompted the reduction in the employer's contributions. It nevertheless upheld the deductibility of the contributions and the tax exempt status of the plan. The Court stated that it could find nothing in the Code or regulations which prevented the taxpayer from changing its formula to reduce the percentage of profits contributed to the trust. The Commissioner has acquiesced in the result in this case. It therefore seems clear that taxpayers will have some measure of flexibility with respect to amendments to profit-sharing plans.

The same rule should be applicable where circumstances indicate

⁵ *Produce Reporter Co.*, 18 T. C. 69 (NA).

⁶ 18 T. C. 657 (A).

that increased contributions could be made to the trust. Where a taxpayer presently has a formula that it wishes to change, so as to increase the contributions under the plan, the change should be made as a formal amendment to the plan. The courts have uniformly held that where a definite formula exists, amounts paid in excess of the formula are not deductible either under section 23(p) or under 23(a) as an ordinary and necessary business expense⁷. Moreover, such excessive payments are not available as carry-overs and are not deductible in any subsequent year⁸.

Forfeitures Inure to Remaining Employees

A principal advantage of the profit-sharing plan, so far as the employee participants are concerned, arises from the treatment accorded forfeitures by employees leaving the company's employ before their shares have fully vested. Because the benefits under a pension plan must be predetermined, shares in the fund released by forfeiture cannot go to augment the benefits of the remaining employees, but are available only to the com-

pany as a reduction in the current payments required under the plan.

Profit-sharing plans, on the other hand, may and usually do provide, that amounts attributable to forfeitures may be apportioned to the other participants. The result is that a substantial proportion of the benefits distributed by a profit-sharing trust, to an employee who continues in the company's employ, very often consists of amounts originally paid into the fund on account of employees who have subsequently left the company.

Advantages to Smaller Companies

It is a mistake to believe that the trend toward profit-sharing plans is confined to the larger corporations. They may be used with equal effectiveness by the smaller closely-held company whose principal stockholders are the active managers of the business. This was not always the case. The Treasury at one time held that a plan was considered to be for the benefit of shareholders and not for the exclusive benefit of employees, if contributions under the plan, with respect to employees each of whom owned more than 10% of the company's stock, exceeded in the aggregate 30% of the total company contribution⁹. The effect of this ruling was to discourage the adoption of plans by many companies whose principal

⁷ *Wooster Rubber Co.*, 14 T. C. 1192, rev'd on other grounds, 189 F. (2d) 878; *Gross-Given Manufacturing Co.*, 99 Fed. Supp. 144; *McClintock-Turnkey Co.*, 19 T. C. No. 42.

⁸ I. T. 4055, 1951-2 C. B. 30.

⁹ I. T. 3674, 1944 C. B. 315.

stockholders actually managed the business.

The Tax Court, however, in the *Volckening* case¹⁰, specifically disapproved the Treasury's "30%" rule as an unwarranted extension of the requirements of the statute and upheld a plan under which amounts paid on behalf of two employees (who owned 97% of the company's stock) constituted during the years involved 58% and 53%, respectively, of the total contributions paid by the company on behalf of its employees. During this period the company employed from 9 to 15 persons, 8 of whom were covered under the plan including the 2 stockholders. The plan was not discriminatory since contributions bore a uniform relationship to the regular rate of employees' compensation. The relatively high percentage of the contributions paid on behalf of the two stockholder-employees was attributable to the higher salaries and greater age of the two individuals. Although the *Volckening* case involved a pension plan, its principle is equally applicable to profit-sharing plans.

The Commissioner has acquiesced in the *Volckening* decision. If a plan is therefore a *bona fide* profit-sharing plan and otherwise meets the requirements of section 165, it will qualify under that section notwithstanding that a large part

of the company's contributions will be for the benefit of employees who are important shareholders. The availability to partners, as shareholder-employees of a corporation, of a substantial participation under a qualified section 165 plan, is one of the important tax advantages to be achieved by the incorporation of a partnership.

Rules of Deductibility

The Code limits the employer's income tax deduction for contributions paid under a profit-sharing plan to 15% of the compensation otherwise paid or accrued during the taxable year to the employees covered by the plan. Contributions required by the formula in excess of the 15% limit may be carried forward and applied to succeeding years in which the contribution paid is less than 15% of the compensation otherwise paid or accrued during that year. If the contribution paid is less than the 15% limit, the difference may be carried forward and applied in succeeding years so as to permit the deduction of contributions paid in excess of the 15% limit of that year. There is a 15% limit per annum on the additional deduction, making a total of 30% for any one year. There is no limit to the number of years "contribution carry-overs" and "credit carry-overs" may be carried forward.

A problem arises in a situation where, by reason of a temporary

¹⁰ *Volckening, Inc.*, 13 T. C. 723(A).

cash shortage, a company is unable to make its full contribution within the 60-day period following the year of accrual, as specified by section 23(p)(1)(E) of the Code. If the company pays the balance of its contribution subsequent to the 60-day period, say, on May 1, is it entitled to a deduction in the year of payment with respect to the liability for the previous year? The answer is in doubt. The Bureau is expected to issue some pronouncement dealing with this matter in the near future.

A related problem arises where the company's profit-sharing contribution is based upon taxable, rather than book, income. Suppose that taxable income for a prior year is revised upward upon a revenue agent's examination. If the company is required to make an additional contribution for that prior year in accordance with its formula, the deduction for such additional amount in the prior year would be doubtful. By including this additional contribution, however, as part of the current year's contribution, under the terms of the formula, along with amounts to be contributed based upon reported income for that year, the deduction for the additional contribution can be assured.

Another problem that frequently arises with respect to the rule that payments into the trust must be made within 60 days after the close of the taxable year is that of

arriving at the correct amount of the corporation's net income within so short a period, frequently before the annual audit has been completed by the company's auditors. The Treasury has recognized this difficulty and has ruled that the use of estimated net income, determined in accordance with established accounting principles consistently applied, and certified to by the accounting or other responsible officer of the company, is acceptable for the purpose of determining contributions to the profit-sharing trust¹¹. The Treasury cautions, however, that an arbitrary estimate or haphazard guess of net income is not acceptable. Further, if a particular method of arriving at estimated net income is once adopted, approval should be requested from the Treasury before a change is made.

Integration with Social Security

Mimeograph 6641¹² sets forth the rules for determining whether a profit-sharing plan is integrated with the Social Security Act as required by section 165 of the Code. These rules are only applicable where under the terms of the profit-sharing plan there is a minimum compensation requirement which excludes employees earning less than \$3,600 per year, or where, for purposes of the plan, compensation

¹¹ PS No. 46, Feb. 10, 1945.

¹² 1951-1 C. B. 41.

below the minimum is treated less favorably than compensation above that amount.

Paragraph 19 of the Mimeograph provides that profit-sharing plans will be considered integrated if the following requirements are met: (1) the employer has no other plan involving integration, (2) the plan provides for benefits only upon retirement or separation from service, (3) all contributions are allocated on a nondiscriminatory basis and (4) the amount of employer contribution plus forfeitures allocated to any participant in any year does not exceed $9\frac{1}{8}\%$ per cent of the actual compensation in excess of the minimum compensation level, except that a minimum allocation not exceeding \$60 may be provided for each participant in any year that allocations are made.

If a plan was in effect prior to May 3, 1951, however, which has been approved by the Treasury as meeting the requirements of section 165(a), it will be considered integrated, provided that approval has not been modified or withdrawn and that no changes have occurred in the plan which could increase the allocations of higher-paid employees.

Investment of Trust Funds

No specific limitations are imposed by the Code on the investments which may be made by a trustee of a profit-sharing trust.

The underlying principle is that investments must be made for the exclusive benefit of employees or their beneficiaries. All of the safeguards that a prudent investor would look to should exist in the case of the trust.

For the trust to invest in the securities of the employer, the Treasury requires that a specific provision to that effect must be made in the trust instrument¹³. Such investment must also be permitted under local law of the jurisdiction to which the trust is subject. Full disclosure must be made to the Commissioner of the reasons for such investments and the conditions under which they are made. The notification to the Commissioner includes the filing of balance sheets, income statements, surplus analyses and a schedule of trust investments¹⁴. An advance ruling may be obtained from the Commissioner as to the effect of such investments on the qualification of the plan.

The purchase of a company's stock by a profit-sharing trust may serve, in effect, as an added incentive feature. Not only may the amounts contributed to the fund by the company be dependent upon profits, but the value of each employee's share in the trust, in the form of company stock, will presumably rise in relation to the

¹³ PS No. 49, June 16, 1945.

¹⁴ Rev. Ruling 33, I. R. B. 1953-6, 47, 52.

success of the company's operations. Besides there may be a definite advantage to the company in having a large block of its outstanding stock in the hands of a friendly trustee. It has even been possible in some cases to arrange for the eventual transfer of control of a close corporation to an employees' profit-sharing trust, thereby solving, in at least one instance, the principal estate planning problem of the company's sole stockholder.

There are tax advantages to an employee-beneficiary of a profit-sharing trust where distributions are made to him within one taxable year upon separation from service. To the extent that such distribution exceeds the amount contributed by the employee, it is taxable to him only as long-term capital gain. Where, however, the distribution includes securities of the employer corporation (or of its parent or subsidiary) which have appreciated in value while held by the trust, no tax is imposed upon the distributee with respect to such unrealized appreciation when he receives the stock. The basis in his hands is the cost of such stock to the trust. Only upon the ultimate sale of the stock by the distributee is a capital gains tax imposed on the appreciation in value of the stock. If the employee retains the stock until his death, the shares will take a basis of fair market value at the date of death

and the unrealized appreciation will never be subjected to income tax.

Employee Savings Plans

A variation of the profit-sharing plan which is gaining increasing popularity is the so-called thrift or employees' savings plan. Such plans involve voluntary contributions by employees of a certain percentage of compensation, frequently at optional rates, with the amounts contributed usually withheld through payroll deductions. The employer likewise makes contributions to the fund, either on the basis of a percentage of current net profits, or on a "matching" basis whereby, say, the company agrees to contribute 50¢ for every dollar contributed by the employee. In the latter case current earnings are not required for contributions under the profit-sharing plan. Contributions may be made out of the accumulated earnings and profits of the company so that it will not be necessary for the company to withdraw from making contributions in an unprofitable year. In many cases the "thrift" feature is used to supplement already established pension or profit-sharing retirement programs.

From the standpoint of the employee this type of savings plan will provide him with greater retirement benefits than he would otherwise obtain if he sought to provide his own retirement fund or supple-

ment a company pension through individual savings. This is because (1) in order to promote the savings incentive on the part of employees the employer itself makes an additional contribution (2) the employee's savings are invested by the trust and the resulting income is not subject to current tax and (3) economies and minimization of risk are available through participation in group investment as contrasted with the investment of individual savings.

The principal advantage of such plans to the employer lies in the fact that greater benefits will be received by the employee, a portion of which will be paid for by the employee himself. Further, availability of larger employee benefits may make it unnecessary for the employer to liberalize its already existing retirement program at some future time, at full cost to itself.

Generally plans of this type will not be approved by the Treasury if employee contributions are permitted in excess of 6% of compensation, where employer contributions are geared to the amounts contributed by the employees¹⁵. Contributions which are required of employees in excess of that figure, in order to obtain matching contributions by the employer, are regarded as burdensome and likely to result in discrimination against lower-paid employees.

An interesting development that has arisen in connection with plans of this type relates to the manner in which the funds held for the account of the employee may be invested. Several plans have offered the employee a choice of investment categories such as (1) the common stock of the company, (2) a diversified portfolio of stocks and other securities of the trustee's selection, (3) United States Government bonds, or (4) shares in a regulated investment company. The employee may direct the investment of his share of the fund in any *one* of the categories or he may allocate his interest among several of the categories. Some restrictions are usually imposed upon shifting in and out of the various categories with too great frequency.

The added flexibility permits the plan to be tailored more fully to individual requirements. Obviously there are wide differences in sensible investment policies for the top-salaried executives of a company, who are probably chiefly interested in the possibilities of capital appreciation, and the lower-salaried employees who are chiefly concerned about an adequate level of retirement income. This development, therefore, holds great promise of obtaining the most effective utilization of funds with respect to the needs of the individual employees involved. While this election of investment categories has

¹⁵ Rev. Ruling 33, I. R. B. 1953-6, 47, 56.

(Continued on page 22)

Coordination between Independent Public Accountants and the Internal Auditing Department*

BY DONALD M. RUSSELL

The structure of accounting and reporting (of which auditing is a part) has a two-fold purpose, first, to serve as a tool for the assistance of top management, by helping it to operate a business profitably, increasing efficiency and eliminating waste, and second, to make it possible for top management to report adequately and fairly upon its custodianship and use of the capital entrusted to it. In considering our part in the accomplishment of these purposes, we have not only a two-party deal between External Auditors and Internal Auditors, but we must consider also our common relationship with a third group, which includes Book-keeping, Systems and Procedures, Cost Accounting, Tax Accounting and in fact all account keeping of the companies we serve, which group I shall refer to as Accounting Management. It is too narrow a viewpoint to say that Accounting Management and Internal Auditing are concerned only with the first purpose, helping to produce profits, and that External Auditing is concerned only with the second pur-

pose, reporting to the public. We must all be interested in both purposes. We must all recognize also that both purposes must be accomplished within the overall limitations of "generally accepted accounting principles" consistently applied.

Responsibilities of Three Participating Groups:

The primary responsibility for a sound style of accounting and reporting rests upon Accounting Management. This responsibility includes the safeguarding of assets and the discovery of any disappearance of assets, by defalcation or otherwise, adoption of accounting policies and procedures, establishment of internal control by division of duties and installation of generally accepted practices which double-check the accuracy of clerical work, adoption of labor-saving devices, selection of qualified personnel, enforcement of disciplines throughout the accounting organization which ensure prompt delivery of reports, and service to top management by submitting such reports and interpretations as will be most useful to it. Accounting Management must furnish super-

*Paper presented at the Sixth Annual Mid-West Regional Conference of The Institute of Internal Auditors.

vision for each group of accounting employees and it is the primary responsibility of this supervision to determine that the plans laid out by Accounting Management and formalized in the Accounting Manual are actually put into effect.

Accounting Management has made great strides but in my observation there are too many corporations operating on thirteen accounting periods of unequal duration, that is, twelve calendar months plus a thirteenth period of an instant of time, called Year-End Adjustments. I believe further progress can be made in making month-end closings as complete and reliable, or nearly so, as the year-end closing.

Internal Auditing is primarily concerned in the greater portion of its activities with assistance to Accounting Management and top management. In your work, as in ours, you should be the eyes and ears that find out and report whether the plans of Accounting Management are actually effectuated. May I submit a few observations concerning your work, because I believe these observations have a bearing on our topic of coordination:

1. We encourage internal auditing and so far as I know every independent public accountant is anxious to cooperate and assist the development of internal auditing and to increase

the prestige of Internal Auditing departments in their respective companies. You reduce our work and our fees but we welcome it. We welcome it because we know that the successful operation of the total accounting and reporting job which the corporation has to do, is done most efficiently and economically by cooperation between us and coordination of your work and ours. It is important to us and to you that our companies be convinced that the total auditing job is done with the greatest efficiency and economy that is possible, and that it is well done.

2. We believe that you have adopted high standards of objectivity and independence, that you have maintained a regard for the fiduciary responsibilities of management in its external reporting and we have gained confidence in your work as we have gained experience with it.
3. To the extent that you acquire personnel who are trained in auditing they should spend their time in auditing rather than in clerical work. It is therefore proper that employees of the accounting departments should prepare trial balances, lead schedules and

skeleton analyses for you, as they do for us, so that your time may be expended primarily on auditing operations.

4. We find rather frequently that Internal Auditors are given special studies or emergency problems in line or staff accounting to such an extent that the time originally planned for auditing is not expended on auditing operations. You and we, together, should convince management that any failure to carry through an internal auditing program because of such substitutions of duties may destroy the principal objectives for which you are organized.
5. We sometimes find the Internal Auditors carrying out repetitive operations that should be performed by Accounting employees. I would place in this category any plan to have all bank statements and paid checks sent directly to the Internal Auditors and the bank accounts reconciled by the Internal Auditors every month. It seems to me your trained personnel can be utilized more effectively than in doing this repetitive clerical work.
6. It is satisfactory to us that your comments and exceptions are prepared as variances from the Accounting Manual prepared by Accounting Management. It is one of our primary responsibilities to match the Manual against generally accepted accounting principles. Your reports are of great assistance to us in answering the all-important question whether the procedures planned in the Manual are *actually carried out*.
7. We note some tendency for Internal Auditors to plan their coverage of clerical details too thin. That is, they tend to conform their programs to those designed for External Auditing and to investigate general procedures and principles to an extent that mitigates against the volume of detailed proofs of accuracy and reliability of accounting data that we would like to see. We are permitted a thin coverage for our double checking of clerical operations only on the premise that an adequate volume of such work is being done by others. You should accept the responsibility for performing a substantial volume of such auditing operations.
8. You have the advantage of close association with the accounts of the corporation throughout the year whereas

ordinarily we examine only on an annual basis. Therefore you have many opportunities to make constructive comments and recommendations. You should be of great assistance to the Accounting Management in the evaluation of accounting personnel and in my opinion, you should participate with Accounting Management to a greater extent than in my observation you usually do, when new policies and procedures are being planned.

9. We have noted instances where Internal Auditing is restricted to the general financial transactions without getting close enough to the details of Cost Accounting. There are no more important captions in financial statements of industrial and commercial companies, than inventories and cost of sales and they cannot be audited properly without attention to the details of the policies, procedures and clerical work of the Cost Department. I was told a story, recently, of an auditor who felt he should break into new territory in the Cost Department. The cost supervisor soon told him that he didn't believe the auditor understood standard costs. "Oh yes I do" said the auditor, "I've studied all about

standard costs, actual costs and variances." "O.K.," said the cost supervisor, "but you don't understand *our* standard costs, *we* use reciprocal standards with dual compensating variances." Whereupon the auditor is said to have retreated to the general accounting department. I know of no area in which our audit investigations may be more fruitful than in Cost Accounting and I believe strongly that both your programs and ours should give this area close attention.

10. In my opinion there are two important principles bearing upon the question as to whom you should report (and it applies to us as well):
- (a) Auditors should report as high in the organization of the corporation as top management will permit, and
 - (b) Auditors should not report *only* to the persons whose work has been audited.

I have recently participated in an arrangement which seems an excellent one. An Audit Committee of a listed corporation, composed of three members of the Board of Directors, not officers of the corporation, has required that it be furnished with copies of all reports we submit including the short-

form audit report addressed to the Board, the long-form audit report addressed to the President and our reports of comments and recommendations addressed to the Vice President in charge of Finance. This Audit Committee plans to meet with us for oral discussion at least twice each year and it also plans to require reports from Accounting Management as to any unresolved differences between Accounting Management and the External Auditors arising from our comments and recommendations. I see no reason why this Committee should not also consult with the Head of the Internal Auditing Department, as to the scope and results of his work. If the position of an Internal Auditing Department in any company needs to be strengthened as to its position in the company organization, the External Auditors should cooperate by submitting recommendations to that effect.

I believe that auditing reports should be submitted to persons in several levels of authority. Good organization also requires complete follow-up of comments and exceptions reported. A procedure requiring final disposition of comments and recommendations should be rigorously en-

forced; if an auditor does not receive adequate reasons for not adopting his recommendations or if they are quietly ignored he should keep on repeating them indefinitely. To quote a well-known Canadian court decision, "A good watchdog does not let out a few yelps and then run behind the barn, he keeps on barking until something happens."

As to the participation of the External Auditors in the total accounting picture it is necessary for us to obtain satisfaction in every area. We are concerned primarily with reports to the public. The independent public accountant is justified in relying on internal control, as carried out by employees of the client, but he cannot escape his own responsibility to obtain satisfaction that the system of accounting is based on generally accepted accounting principles, includes such safeguards as are commonly adopted in industry against loss of assets, and produces summarized results that are accurate and reliable. The principal objective of our coordination with your activities is to permit us to obtain these satisfactions, economically and expeditiously, particularly in answer to the all-important question as to whether the accounting plan *is actually carried out* as we are given to understand that it is supposed to be carried out.

Planning Our Programs:

Coordinated programs do not mean Joint Audits in the sense that you assume the entire responsibility for certain matters and we for certain other matters. This is impossible because of the inherent nature of the responsibility which we assume. The reason for our existence in the business world is that we carry the responsibility of independence and of expressing our opinion upon the financial statements as a whole. It is not possible for you to join us in signing our statements of opinion. Therefore we must investigate and test all phases of the accounting for any period reported upon and in testing the internal control we must obtain satisfaction that your participation in that control during the period under review, warrants our reliance. It therefore follows that to some extent we must audit the internal auditors. Duplication of audit operations can be reduced to a reasonable minimum but it cannot and should not be eliminated.

We should confer early in each year for the purpose of coordinating our work and to arrange in advance a schedule for visitations of accounting locations, plants and branches. We need to know your programs in detail so that we can become familiar with the scope of your examinations and plan our programs accordingly. It will be of assistance to us to know whether

you contemplate feature examinations in such areas as insurance, pension plans or scrap disposition, in addition to your periodic examinations of specific accounting locations. We can even work together on the surprise features of our audit programs; such arrangements do not need to be completely specific, but we can arrange in advance for surprise examinations by each of us within general areas. Presumably you budget your work in detail as we do, making estimates of the man-hours expected to be expended. We must make those man-hours most effective. You are interested in spreading the work evenly over the year, as we are. In this connection there are no accounts in the balance sheet or the statement of income, even cash, as to which we cannot obtain some satisfaction from audit work performed at interim dates.

A useful feature of our planning is coordination in the rotation of the plants and branches to be visited. From our view the circumstances would be unusual which would warrant a rotation of plants and branches over a period longer than three years. We would prefer to see the internal auditors visit each accounting location at least once each year.

In almost any corporation there will develop from time to time some accounting locations or some accounting procedures that will have been found to be "soft spots,"

where the accounting is not under the best of control. It would be efficient procedure for you to move into these "soft spots" as promptly as possible. We are also particularly interested in those areas. It might be well under these circumstances for you to examine the "soft-spot" location, for example, as at April 30th and to submit your comments and recommendations and initiate corrective action. It might then be in order for us to visit the location at September 30th and report upon the success of the corrective action. Of course there will also be instances in which we bring "soft spots" to your attention. I recall an instance in which we commented upon low scrap recovery during a certain period based primarily upon comparison of operating accounts. Based upon our comment the internal auditors made a special audit and discovered a defalcation.

In planning for coordination of confirmation procedures we need to know that your practices are the equivalent of ours as to independence of procedure, particularly in the selection of the samples to be tested, in control of the mailing procedure (the requests should be deposited directly with the post office by your own staff members and the replies should come to you directly and not through the company's Mailing Department) and we need to know the disposition which you make of all exceptions

that are disclosed. On our part, we should avoid annoying customers shortly after the date of your confirmation requests. One procedure you can use to help house-clean accounts receivable (or payable) is to use the positive confirmation procedure on all accounts which have been outstanding for more than thirty days, following up with second or third requests when necessary and having all exceptions adjusted. Following that procedure after a reasonable lapse of time, we would probably be satisfied to use negative type confirmations on only a small sample of the accounts.

The work on physical inventories is an area in which we are able to reduce the extent of our work materially if you participate in the planning, observation, testing, control of tickets by serial number and summarization. It is usually desirable in this work to augment your forces with other employees from the accounting departments. A great deal of clerical work is involved in the testing of unit prices applied to the physical inventories. We are also ready and willing to reduce our sampling in the tests of pricing, if you have made substantial tests in this area.

Selecting Samples:

We expect that your selection of samples will be done with full consideration of the mathematical basis of sampling technique. In

general, assuming a fairly homogeneous mass of items suitable for sampling in the first place, mathematics tells us that we usually gain no new information by increasing the size of our sampling beyond certain limits usually within the range from 5 to 30 pct. In other words, beyond such limits, it is to be expected that the tests will result in mere repetitions of the types of exceptions disclosed by the tests already taken and further testing would therefore be wasteful and inefficient. Frequently, the identification of the mass of items which are suitable for sampling, constitutes one of the most difficult problems. A principal criterion here is that the items shall have at least some common characteristics. As to accounts receivable, for example, we should consider wholesale accounts as a separate mass of items from retail accounts, we should consider town accounts and country accounts separately in a newspaper business, and installment and regular accounts separately when auditing a department store.

The most important part of the sampling technique is evaluation of the exceptions disclosed. We must first be sure they mean what they seem to mean. If their significance is in doubt it may be necessary to test further to satisfy ourselves that the exceptions are typical and not merely occasional. Then we must decide whether they

represent clerical errors or whether they have further implications in that they may be errors of principle or weak or faulty procedures, whether they indicate a defalcation or an effort to cover up a defalcation and possibly whether they evidence an intent on the part of operating personnel to misstate the results of operations. Most frequently they show sloppy or careless clerical work and should be discussed promptly with the immediate accounting supervisors of the employees who did the work, looking to prompt corrective action. Of course, they may indicate the necessity for adjusting journal entries for correction of the summary figures. Such entries should usually be developed by the accounting staff after the auditors have called attention to the general situation.

In our reviews of your working papers and reports we are most particularly interested in the dispositions made of the exceptions disclosed by the sampling processes.

The selection of samples calls for judgment in the field and it is not usually practicable to make arrangements between us, in advance, as to the exact extent of the testing to be performed. If you are not to visit a location we would select about the same extent of sampling as you would select if we are not to visit a location. The extent of our sampling would usually be less than yours if we are

both planning to audit the same location in the same year. The first one into the location should select samples independently, the one to follow should have knowledge of the samples selected by the first group of auditors.

On one engagement recently we knew that the internal auditors had made a 25 pct. test of the additions to the fixed asset accounts. We decided that we were satisfied to make a 7 pct. test, for which we selected 5 pct. of items not tested by the internal auditors and 2 pct. of the same items which they had tested. This resulted in combined testing of 30 pct. with a 2 pct. overlap which to the extent of the overlap was an audit of the auditors.

Exchange of Information:

Full details of our audit programs should not be disclosed to Operating Management or to Accounting Management. Experience has shown that extensive defalcation schemes involving collusion by a group of persons may be built around too exact knowledge of what the auditors will do. We both should have, and I believe we almost always receive, freedom in deciding the nature of the auditing operations we are to use, and the details of our programs should be varied from year to year.

As between ourselves, we should exchange information freely. We want to receive, and usually do receive, copies of your reports as

soon as they are issued throughout the year, and in fact we want to know everything which your audits develop. It would fall considerably short of the cooperation which I look for, for example, if you should discover a substantial block of obsolete inventory and keep that information from us. Of course your representatives in the field may think they have discovered such a situation and subsequent follow-up may have satisfied you that the materials should not be written off. Can we not expect to see memoranda in your working papers, of the subsequent conferences that followed this situation which will tell the whole story and save us from finding the same evidence and going through the entire procedure again? In this connection we encourage staff members to write memoranda in our working papers recording all oral discussions with company employees, and I hope you do also. The information in these memoranda is often more helpful in the review of working papers than the voluminous copies of accounts we sometimes find. Our standard short-form reports formerly contained a wording about "information and explanations obtained from officers and employees of the company." We no longer use the wording in the standard short-form reports, but such information is still important in obtaining for us the satisfactions we need to express an opinion.

I believe it is the best practice, that neither of us should take the working papers of the other out of the custody of the organization which prepared them. Satisfactory access to the papers can be arranged without giving up custody. I have noticed some tendency of one organization to request extensive photostatic copies of the working papers of the other. This may occasionally be desirable but as a general practice I believe it should be discouraged. It tends toward the Joint Audit rather than the Coordinated Audit.

Discovery of Defalcations:

I have already commented upon the primary responsibility of Accounting Management for the discovery of defalcations. Since you are closer to the details of accounting, you perhaps have greater opportunities for discovering defalcations than we; however, with you as with us, reliance upon sampling and testing and the possibilities of collusive fraud, combine to bring about the result that our auditing "cannot be relied upon" to discover defalcations. The first line of protection is in system design and automatic proofs and safeguards within the accounting departments. It has been reiterated recently that protection lies in a combination of three things:

1. Internal Control
2. Fidelity Bond Coverage
3. Audits

In an article in the November, 1951 issue of *The Journal of Accountancy*, Mr. Alvin R. Jennings, stated as follows concerning audits by independent public accountants:

The best line of defense today against the occurrence of defalcations is an effective system of internal control-assurance against loss from defalcations which do occur rests on an adequate fidelity insurance program. The fact that defalcations are occasionally brought to light by the present-day type of "financial examination" does not alter the fact that such examinations, not being designed for that purpose, should not be depended upon as a substitute for the other two elements of protection.

Needless to say we must all be alert, within the scope of the audit operations we perform, to recognize the evidences of defalcations when they come before us.

Comments and Recommendations:

In conclusion I would like to observe that the greatest dividends result from our auditing work when we "follow up" and "follow through." We have all gathered a considerable stock of accounting theory and a familiarity with accounting principles, procedures and practices. All of that dies on the vine unless we produce end results which serve a useful and constructive purpose. The exceptions which we develop by our auditing procedures, both as to the figures, and as to the systems of accounting, are packed full of usefulness. Just as with the variances developed in

(Continued on page 22)

The L. R. B. & M. Journal

Published by Lybrand, Ross Bros. & Montgomery, for distribution to members and employees of the firm.

The purpose of this journal is to communicate to every member of the staff and office, plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvements; to encourage and maintain a proper spirit of cooperation and interest, and to help in the solution of common problems.

PARTNERS

WILLIAM M. LYBRAND

- T. EDWARD ROSS

J. F. STUART ARTHUR Dallas
 PHILIP BARDES New York
 HERMON F. BELL New York
 JOSEPH W. BOWER Pittsburgh
 HERBERT G. BOWLES Los Angeles
 FRED M. BRESLIN San Francisco
 J. EDWARD BURKE Chicago
 HILTON R. CAMPBELL New York
 EDWARD G. CARSON New York
 HARRY N. CASE New York
 WILLIAM P. CROUCH Houston
 FRED C. DENNIS Cincinnati
 GEORGE R. DRABENSTADT Philadelphia
 HENRY C. ELPERS New York
 CLAUDE R. GILES San Francisco
 CLARENCE R. HAAS Philadelphia
 PAUL F. HALLORAN Birmingham
 JOEL D. HARVEY Boston
 GEORGE A. HEWITT Philadelphia
 LINN W. HOBBS Detroit
 JOHN HOOD, JR. Philadelphia
 ALBERT E. HUNTER Boston
 ALVIN R. JENNINGS New York
 CARL T. KELLER Boston
 CHRISTOPHER H. KNOLL New York

LOUIS D. KORK Cleveland
 NORMAN J. LENHART New York
 JAMES J. MAHON, JR. Philadelphia
 WILLIAM F. MARSH Pittsburgh
 JOHN McCULLOUGH Detroit
 HOMER L. MILLER Chicago
 JOHN L. MONETA Philadelphia
 ALBERT G. MOSS Dallas
 EDWIN P. NOELL Cleveland
 DONALD P. PERRY Boston
 GLENN O. PETTY Philadelphia
 JOHN C. POTTER New York
 LOUIS H. RAPPAPORT New York
 MARK E. RICHARDSON Washington
 PRICE G. RIGHTER Detroit
 DONALD M. RUSSELL Detroit
 WALTER L. SCHAFFER New York
 GUSTAVE F. SCHWEITZER Philadelphia
 PRIOR SINCLAIR New York
 EDMUND A. STAUB Baltimore
 WALTER R. STAUB New York
 HARRY H. STEINMEYER Philadelphia
 CONRAD B. TAYLOR New York
 MARK C. WALKER Boston
 ROBERT S. WARNER Los Angeles

EUROPE

LEONARD C. DAVID

VICTOR L. NORRIS

Editorials

Birmingham Office

For better service to our clients in the south, the firm on September 1st opened an office in the First National Building, Birmingham, Alabama. Mr. Paul F. Halloran is the partner in charge, and Mr. James P. Allen, manager.

Pennies in the Accounts

In the June, 1953 issue of the *Journal of Accountancy* there were two references to Colonel Montgomery. One was an editorial paying tribute to his career in public accounting; the other was a "letter to the Editor" from the

Colonel himself, indicating his interest in current affairs practically to the time of his death. The Colonel wrote to urge the dropping of cents from financial statements and even from accounting records themselves. That his subject was timely was illustrated by a recent editorial in the *New York Times*, commenting upon the decision of the Post Office Department to drop cents in its bookkeeping. Several large corporations now do so, and many more omit cents from published financial statements.

The Lybrand Awards for Cost Accounting Literature

The Lybrand awards comprise a gold and silver medal and twenty-five Certificates of Merit, which are provided by the partners of Mr. William M. Lybrand in recognition of outstanding contributions to industrial accounting literature. For 1953, the gold medal was won by Roger A. Kosloske, a member of the Rockford Chapter and Expense Controller, Micro-Switch Division, Minneapolis-Honeywell Regulator Company. Mr. Kosloske's prize-winning manuscript was entitled "A Pattern for Substantiating Quantity Discounts." The silver medal was taken by I. Wayne Keller for his excellent paper "Shall We Lease or Buy Equipment?"

Mr. Lybrand sent the following telegram to the winners:

MY SINCERE CONGRATULATIONS TO MESSRS. KOSLOSKE AND KELLER ON THEIR OUTSTANDING CONTRIBUTIONS TO THE LITERATURE OF INDUSTRIAL ACCOUNTING ON THE OCCASION OF THE AWARDING OF THE 1953 LYBRAND MEDALS. I REGRET THAT I CANNOT BE PRESENT PERSONALLY BUT MY WARMEST GREETINGS GO TO MEMBERS OF NACA AND TO THEIR OFFICERS. MAY YOU HAVE A MOST SUCCESSFUL MEETING.

WILLIAM M. LYBRAND.

Adam Averell Ross Prizes

In 1939, Mr. T. Edward Ross established annual prizes for outstanding students at the Wharton School of Finance and Commerce of the University of Pennsylvania.

The 1953 prize to the graduating senior who showed the most promise in the field of accounting was awarded to William Joseph O'Kane, of Philadelphia, Pa.

The 1953 prize to the student who majored in Accounting in the Graduate Division of Business and Governmental Administration, and who presented the best thesis for the Master of Business Administration degree, was presented to Frank Tom Mitchell, Jr., his thesis being entitled "Accounting Implications of the Elkins Act Consent Decree."

The Montgomery Prize

The Montgomery prize was established in 1916 by the late Colonel Montgomery to be awarded

(Continued on page 22)

Employee Profit-Sharing and Savings Plans

(Continued from page 9)

arisen chiefly in connection with employee savings or thrift plans, there would seem to be no reason why these principles could not be equally well applied under a straight noncontributory profit-sharing plan.

Conclusion

Qualified profit-sharing plans offer important advantages to a company from the standpoint of both sound business policy and tax savings. The incentive features of such plans strengthen employee morale and encourage efficient performance. The intrinsic flexibility of profit-sharing plans relieves the company of fixed dollar commit-

ments when earnings are poor while resulting in increased contributions when operations are profitable and the company is in a better position to make contributions. The possibility of capital gain upon a distribution on termination of employment, and the postponement of tax upon unrealized appreciation in the company's stock, are especially attractive to company executives. The inclusion of an employee savings feature in the profit-sharing plan has special appeal to the lower-paid employee and may result in substantial additional benefits to both employer and employee.

Coordination between Independent Public Accountants and the Internal Auditing Department

(Continued from page 19)

cost accounting, they furnish the clues to possibilities of improvements in operational performance. These exceptions must be analyzed and utilized to the maximum extent. You, and we, must use our best imagination and judgment in evaluating the exceptions we find, we must follow them up to ferret

out all of the significance which they contain and, after that, we must follow through with constructive comments and recommendations and then keep at it until final agreement has been reached and the improvements that should result have been finally achieved.

Editorials

(Continued from page 21)

to that member of the graduating class of the School of Business of Columbia University, who specialized in accounting and who was

deemed by the staff of the school to be most proficient in all courses. The winner of the prize for 1953 was Christian T. Niemann.

Notes

Boston Office

Massachusetts C. P. A. certificates have been received by Benjamin M. Forbes and Elmer A. Oesterlin. The California Board of Accountancy has granted a C. P. A. certificate to Seth A. Armen.

Mr. Hunter has been reelected Treasurer of the Boston Chamber of Commerce.

Mr. E. W. L. Page has been appointed Trustee of Glover Memorial Hospital, Needham, Mass., and member of its Finance Committee.

Mr. Herman Stuetzer, Jr. has been reelected Chairman of the Finance Committee of the Town of Hingham.

From April 20 through April 22, 1953, Mr. Thomas Galligan, Jr. attended the "National Conference of Electric and Gas Utility Accountants" joint accounting convention in Chicago. Mr. Galligan has been appointed to the Watertown East Junior High School Building Committee.

Chicago Office

Mr. J. E. Ahern and Mr. William F. Sheehan were recently awarded their Illinois C. P. A. certificates and Mr. Glenn E. Wabel his District of Columbia certificate on the basis of the May, 1953 examinations.

Mr. J. E. Burke attended the

National Conference of the National Association of Cost Accountants in Los Angeles June 14-19, 1953.

The following are serving on committees of the Illinois Society of Certified Public Accountants:

Homer L. Miller—Professional Ethics (Chairman)

J. Edward Burke—Cooperation with Bankers

J. O. Phelps—Taxation

C. W. Lutz—Legislation (Vice-Chairman).

Cincinnati Office

"Some Observations of a CPA with Respect to Life Insurance" was the subject of an address given by Mr. Dennis before the Chartered Life Underwriters Group of Cincinnati on April 24th. A forty-minute question and answer period followed the presentation.

Mr. Joseph H. Eversmann is Chairman of the Education Committee for the Cincinnati Chapter, Ohio Society of CPA's. Mr. Paul M. Engelhart has been elected Treasurer of the Dartmouth Club of Cincinnati.

Mr. Willis K. Waterfield has been appointed Chairman of the Constitution Committee for the Ohio Society of CPA's. He is also serving in the same capacity for the Cincinnati Chapter.

Mr. Dennis has been nominated as Second Vice President of the

Ohio Society of CPA's. He also has been appointed Chairman of the Audit Committee for the Optimist Club of Cincinnati.

The annual Golf and Swimming Party of the Cincinnati office was held on June 25th at the Terrace Park Country Club. The gathering of approximately 50 included the wives of staff members. It was an enjoyable occasion and appropriate prizes were presented to the golf winners by Mr. Edward L. Fischer, who presided as Toastmaster.

The following staff members have received their C. P. A. Certificates from the State of Ohio:

Eugene F. Warren
Raymond J. Leisner
Sherwood T. Rodrigues.

Cleveland Office

Mr. Kork was chairman of a joint meeting of the Ohio Society of C. P. A.'s and the Institute of Internal Auditors at which Mr. Hourihan of the Ford Motor Company was the principal speaker.

The office golf party was held at the Lake Forest Country Club, Hudson, Ohio on June 12th. The weather was perfect, par was safe and everyone enjoyed himself. Mr. J. P. Colleran, Jr. acted as toastmaster at the dinner and distributed the prizes for excellence (?) in golf, etc. Mr. A. W. Lindstrom won the prize for low gross and Mr. J. P. Corlett was the blind bogie winner.

Mr. Noell has been appointed to

the Committee on Procurement Auditing of the American Institute.

Miss Catherine E. Pfeifer has been elected Second Vice President of the Cleveland Chapter of the American Society of Women Accountants and is National Chairman of the Committee to Prepare a Code of Ethics for A. S. W. A.

Mr. G. B. Talmage is Associate Director of Publications of the Cleveland Chapter of the National Association of Cost Accountants.

Dallas Office

Mr. W. P. Irving is a member of the Planning Subcommittee of the Committee on Federal Taxation of the Texas Society of Certified Public Accountants.

Houston Office

Mr. Crouch served as a member of a panel at one of the technical sessions at the 38th annual convention of the Texas Society of Certified Public Accountants held at San Antonio May 31, 1953 through June 2, 1953. The subject of the panel discussion was "Office and Administration Procedures of Practitioners." He has been elected to serve as Treasurer of the Houston Business and Estate Planning Council for the ensuing year.

Committee assignments of the Texas Society of Certified Public Accountants include Mr. Crouch on Professional Ethics and Mr. Carl Patton on the Membership Committee.

Louisville Office

Mr. J. Wesley Huss has been elected Vice President of the Louisville Chapter of N. A. C. A.; is a member of the Finance Committee for the annual Conference on Taxation, sponsored by the National Tax Association, to be held in Louisville, Kentucky, September 28 to October 1; and will serve for the unexpired term of Mr. Halloran as a Director of the Louisville Credit Men's Association.

Mr. J. Martin Conder has been appointed Associate Director of Education of the Louisville Chapter of N. A. C. A.

Philadelphia Office

Mr. Cyril P. Gamber was a member of the Panel Forum for the Accounting Study Meeting of the Pennsylvania Institute of Certified Public Accountants which was held in Philadelphia on April 20th. The subject discussed was "Machine Accounting."

On May 11th, Mr. Gamber addressed the meeting of the Philadelphia Chapter of the Institute of Internal Auditors on "The Audit of Machine Tabulated Records."

Mr. Gamber also has been re-elected Treasurer of the Philadelphia Chapter of the National Association of Cost Accountants for the year 1953-1954.

Mr. Mahon addressed the following groups on the dates shown:

Birmingham, Ala., Chapter of the National Association of Cost Accountants on April 14th on Business Tax Troubles.

Pennsylvania Tax Symposium, sponsored by the Tax Institute, Inc., in Harrisburg, Pa., on May 8th, on the subject "Can Additional Revenue be Derived from Existing Taxes?"

Mr. Mahon also acted as Chairman of Pennsylvania State Institute's Seventh Annual Seminar on Taxation at State College, Pa. on May 17th to 19th, and spoke, at Ohio State University's Institute on Accounting on May 20th at Columbus, Ohio, on "Management Aspects of Tax Planning."

Mr. Roger F. Burd spoke at the annual dinner meeting of the Accounting Society of Villanova College on May 21st on "The Experiences of a Certified Public Accountant."

The Annual Stag Outing of the Philadelphia office was again held, through the courtesy of Mr. Hood, at Tavistock Country Club, Hadonfield, N. J., on Monday, June 1st. As usual, the Hon. Weather Man tried to dampen the gathering by providing plenty of rain during the early part of the morning. A few groups started to play golf in the rain anyway, and later, when the sky cleared, most of those who expected to play golf were able to finish the 18 holes. Others attending the outing played volley ball, soft ball, quoits and cards. In attendance were a total of 198 from the Philadelphia office or-

ganization, other offices, ex-LRB & Mers and other guests, who enjoyed the day and the affair was voted another success.

At the dinner, Mr. Sinclair was asked to say a few words about the late Col. Robert H. Montgomery, which he did, after which there was a standing silent tribute to his memory.

Following the retirement last year of The Drabenstadt Cup, by Mr. Britton H. Miller, who had won it three times, a new trophy was put in play this year by Mr. Haas—a beautiful silver bowl. Our “pro” golfer, Mr. Miller, just mentioned, had the low net score again this year and consequently is the first to get his name on The Haas Trophy. (We will see the new trophy for at least two more years!)

Mr. Hewitt was awarded the prize for low-gross score; and the putting contest ended in a tie, so duplicate prizes were awarded to Mr. A. Eugene Stillman and Mr. William R. Myers.

The eight low-gross scorers in this tournament for The Haas Trophy, who are eligible to compete at match-play for the Adam Averell Ross Golf Memorial Trophy, which Mr. T. Edward Ross put in play in memory of his brother in 1938, are: W. G. Casey, Tacke, B. H. Miller, Hewitt, Emsley, Myers, Kelly and Raab, which names are in the order of the drawing for the first round.

The occasion marked the recog-

nition of the completion this year of twenty-five years of association of two deeply-loved and highly-esteemed members of the organization—Abraham S. Hottel, Jr. and Charles F. Eichman. In announcing the addition of these two men to the group comprising quarter-century associates of the Firm, Mr. Mahon noted that there are now 29 active members of the Philadelphia organization—partners, staff members and office personnel—who have been privileged to be associated with one another and the Firm for this long and pleasant period.

On June 16th, Mr. Herman C. Heiser spoke at the 34th Annual International Cost Conference of the National Association of Cost Accountants in Los Angeles, California. Under the heading, “What Can We Expect of Direct Costing?”, he gave an explanation of the basic concept behind direct costing, with discussion of its value as a management tool, and an evaluation of the prospects for its general acceptance.

Mr. Heiser has finished his term as National Vice President of N. A. C. A. and has now been elected a member of that organization's Spot Club.

Messrs. Walter T. Brown and A. Eugene Stillman are members of the Membership Service Committee of the Philadelphia Chapter of N. A. C. A. for 1953-1954.

Mr. Hewitt has been elected a

National Director of the N. A. C. A. for the year 1953-1954.

Mr. Mahon acted as Chairman of the Conference on the Pennsylvania Sales Tax held on August 26th, which was sponsored by the Tax Council of the Chamber of Commerce of Greater Philadelphia. At this conference, Mr. Oliver O. Cromwell of the New York office served as a panel member during the afternoon session.

Mr. Philip J. Taylor has been elected President of The Exchange Club of Philadelphia for the year 1953-1954.

The following Philadelphia partners and staff members hold offices and committee memberships in the Pennsylvania Institute of Certified Public Accountants and its Philadelphia Chapter for 1953-1954, as listed below:

PENNSYLVANIA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Member of Council

George A. Hewitt

COMMITTEES ON:

Professional Ethics

John L. Moneta, *Chairman*

Past Presidents

George A. Hewitt

T. Edward Ross

Nominations

James J. Mahon, Jr.

Legislation

George A. Hewitt, *Chairman*

Cooperation with Bankers

Frederick Martin

Commonwealth Government Accounting

Harry H. Steinmeyer

Cooperation with State Board of Examiners

George A. Hewitt

Institute Publications

Glenn O. Petty, *Chairman*

Spokesman Editorial Board

Glenn O. Petty

Auditing and Accounting Procedures

Harry C. Zug

Member Advisory Service

Clarence R. Haas

Cooperation with the Bar

James J. Mahon, Jr.

PHILADELPHIA CHAPTER OF PENNSYLVANIA INSTITUTE

Executive Committee

Harry G. Thomas—Reelected for
1953-1954;

Harry C. Zug —1953-1955

Director of Research

Philip J. Taylor

COMMITTEES ON:

General Meetings

Benton B. Wilde

Accounting Meetings

A. Eugene Stillman

Tax Meetings

Richard T. Farrand

Forum

James E. Meredith, Jr., *Vice-Chairman*

American Institute Bulletins

Edward P. Mullen

Taxation

Raymond E. Graichen

William F. Scheid, Jr.

Members' Advisory Service

Harry C. Schmidt

Relations with Other Organizations

Harry G. Thomas, *Chairman*

Speakers and Publicity Material

William B. Keast

Nominations

Glenn O. Petty, *Chairman*

New Members

Samuel Wetherald

Hospitality

Harold G. Hunsberger

Recreation

Britton H. Miller

New York Office

Mr. Bardes acted as Panel Chairman on Pension and Profit-Sharing Plans at the 20th Annual Conference of New York C. P. A.'s at Saranac, New York, in June.

Mr. Oliver Cromwell was a panel member at a discussion of Pennsylvania sales taxes at a meeting sponsored by the Tax Council of the Chamber of Commerce of Greater Philadelphia on August 26.

The New Jersey Society of Certified Public Accountants has the following on its committees for the current year:

Auditing Procedures—Mr. Walter R. Staub
Accounting Principles and Procedures—
Mr. John A. Farrar

Mr. Lambert H. Spronck spoke at the annual meeting of the Tennessee Society of C. P. A.'s at Knoxville on August 24th on "Systems and Special Engagements."

Mr. R. G. Ankers spoke at Newburgh, New York, on May 14, 1953 before high school principals and guidance directors from schools in the mid-Hudson Valley on the subject, "The Future C. P. A."

A dinner was held on May 4th by the New York State Society honoring recent successful candidates for the C. P. A. examination.

The following were guests from the New York office:

John F. Curle
Richard L. Denney
Charles C. Martin
Thomas J. Murray
Philip R. Pockey
Ernest Summers
Richard H. Wehmeyer.

The following members of the firm and staff are serving the New York State Society of C. P. A.'s for 1953-1954 in the capacities indicated:

Mr. Jennings—Cooperation with State Education Department, Survey Committee

Mr. Staub—Cooperation with Bankers, Professional Conduct

Mr. Bardes—Amendments to By-Laws, Cooperation with the Bar

Mr. Case—Auditing Procedure, Foreign Trade Accounting

Mr. R. G. Ankers—Secretary, Membership (*Chairman*)

Mr. R. K. Batzer—Air Transport and Airport Accounting (*Chairman*), Public Utilities Accounting

Mr. L. F. Beckers—Cooperation with Other Accounting Societies

Mr. G. R. Byrne—Publications (*Chairman*)

Mr. Meyer Hertzberg—Retail Accounting

Mr. P. L. Deffiese—Education

Mr. G. E. Doty—Stock Brokerage Accounting

Mr. H. O. Leete—History

Mr. A. R. Kassander—Survey Committee

Mr. C. J. Simon—History

Mr. L. H. Spronck—Budget and Budgetary Controls

Mr. K. J. Worland—Textile Accounting

Pittsburgh Office

Mr. Bower was elected Director of the Pittsburgh Chapter of N. A. C. A. for the year 1953-1954.

Mr. John J. Morgan passed the Pennsylvania C. P. A. examination.

Committee members of the Pittsburgh Chapter of the Pennsylvania Institute of Certified Public Accountants for the 1953-54 year are as follows:

James E. Gelbert—Taxation
Duncan A. Bruce—Membership
George C. Rattelman—Attendance
Edward B. Hastings—Public Information
Ralph P. Kulzer—Legislation
William F. Marsh—Cooperation with Other Professional Groups
Joseph W. Bower—*Chairman*, Insurance

The annual Stag Golf Outing was held at Chartiers Country Club on August 25th. A number of clients and former staff members were the guests of the office for the activities of the day and evening. Mr. Gelbert won the cup for low gross.

Rockford Office

Mr. John W. Conrad was one of the speakers at the Management Institute for Young Businessmen presented by the University of Illinois and sponsored by the Peoria Jaycees.

Mr. Conrad also spoke at the April 30, 1953, meeting of the Rockford Rotary Club.

The following members of the

staff are serving on committees of the Northern Chapter, Illinois Society of Certified Public Accountants for the year 1953-1954:

Public Relations

Mr. J. W. Rowland, *Chairman*
Mr. L. E. Frazee

Program and Meetings

Mr. R. W. Myers, *Chairman*
Mr. R. L. Shotliff

Cooperation with Other Groups

Mr. L. J. Schaumburg

San Francisco Office

The following have recently received their California C. P. A. certificates:

Frank Damgaard
William Feely
William Sigrist

Francis Dischler, William Feely, and Martin Hanlon have been admitted to the American Institute of Accountants.

The annual staff outing was held at Menlo Country Club on May 8th. Winners in the golf tournament were:

Ralph Frederick—Low gross
Martin Gill —Low net

Seattle Office

Mr. Robert L. Aiken has been elected to the Board of Governors of the National Association of Cost Accountants, Seattle Chapter, and is Chairman of the Employment Committee for the coming year.

Washington Office

On June 5th, Mr. Richardson addressed the annual meeting of the California Society of C. P. A.'s at Los Angeles on the subject, "One Accountant's Concept of a Sound Tax Program," and also introduced the Honorable T. Coleman

Andrews, United States Commissioner of Internal Revenue, at a Presidents' Luncheon during the annual meeting on that day.¹

On June 9th, at the Central States Accounting Conference, Omaha, Nebraska, Mr. Richardson presented a paper on "Trends and Prospects in Taxation."



Lybrand, Ross Bros. & Montgomery

Offices

<i>Cities</i>	<i>Addresses</i>
BALTIMORE 2	First National Bank Building
BIRMINGHAM 2	First National Building
BOSTON 10	80 Federal Street
CHICAGO 4	231 South LaSalle Street
CINCINNATI 2	Carew Tower
CLEVELAND 14	Union Commerce Building
DALLAS 1	First National Bank Building
DETROIT 26	Book Building
HOUSTON 2	1114 Texas Avenue
LOS ANGELES 13	510 South Spring Street
LOUISVILLE 2	Heyburn Building
NEW YORK 4	90 Broad Street
PHILADELPHIA 2	Packard Building
PITTSBURGH 22	Oliver Building
ROCKFORD, ILL.	119 North Church Street
SAN FRANCISCO 4	100 Bush Street
SAINT LOUIS 1	411 North Seventh Street
SEATTLE 1	Skinner Building
TULSA 3	First National Building
WASHINGTON 5	Investment Building

EUROPE

LONDON, ENGLAND	3 St. James's Square, S. W. 1
PARIS 1, FRANCE	39 Rue Cambon



